

Message Text

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PAGE 01 CAIRO 14171 251732Z

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TO SECSTATE WASHDC 8728

INFO AMEMBASSY AMMAN

AMEBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KHARTOUM

AMEMBASSY TEL AVIV

AMEMBASSY TRIPOLI

C O N F I D E N T I A L CAIRO 14171

EO 11652: GDS

TAGS: ELAB, PINT, EG

SUBJ: PESSIMISTIC LABOR VIEW OF IMPENDING SUBSIDY CUTS

REF (A) CAIRO 13973, (B) CAIRO 13948, (C) CAIRO 14131,

(D) CAIRO 14151,

SUMMARY: TRADE UNION LEADER VIEWS GOE SUBSIDY CUTS/WAGE RAISE SCHEME PESSIMISTICALLY. HE BELIEVES WAGE RAISES WOULD NOT KEEP PACE WITH COST OF LIVING; UNEMPLOYED AND PRIVATE SECTOR WORKERS WILL BE "VICTIMS" OF MEASURE WHILE ALL MIDDLE INCOME EARNERS WOULD SUFFER GREATLY. REPETITION OF JAN PRICE RIOTING COULD WELL RESULT. FEDERATION OF LABOR WILL ASK GOE NOT TO REMOVE SUBSIDIES. MEANWHILE, GOE MUST FOLLOW THROUGH WITH ITS CAMPAIGN AGAINST ILLEGAL MARKUPS BY GREEDY MERCHANTS, WHO HAVE MUCH RESPONSIBILITY FOR COST OF LIVING INCREASES. THUS FAR, GOE NOT SUCCEEDING IN CALMING PUBLIC DEARS OF ECONOMY, AND TROUBLE LIKELY TO ENSUE. END SUMMARY

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PAGE 02 CAIRO 14171 251732Z

1. LRO RECEIVED PESSIMISTIC VIEW OF LIKELY EFFECTS OF SUBSIDY CUTS (REFTELS) FROM EGYPTIAN LABOR LEADER AUG 23. IN VIEW OF MAHMUD DABBUR, HEAD OF UNION OF BANK, INSURANCE AND FINANCIAL WORKERS, ANNOUCEMENT THAT SAVINGS FROM SUBSIDY CUTS WOULD BE COVERTED INTO SIXTY PERCENT WAGE INCREASE FOR LOWEST PAID PUBLIC SECTOR WORKERS WAS BAD IDEA. HE DID NOT FEEL THAT SALARY INCREASES WOULD KEEP PACE WITH COST OF

LIVING (WHICH HE ESTIMATED AT THRITY PERCENT IN PAST YEAR) AND WOULD NOT, AS GOVT SUGGESTING, LEVEL OUT HIGH AND LOW INCOMES. ONE MAJOR PROBLEM WAS THAT PRIVATE SECTOR WORKERS AND UNEMPLOYED OR UNDEREMPLOYED WILL BE "VICTIMS" OF THESE MEASURES AND "SUFFER GREATLY."

2. SOURCE SAID MANY LABOR UNIONS BELIEVE ALL SUBSIDIZED COMMODITIES, WITH EXCEPTION BREAD AND PUBLIC TRANSPORT, LIKELY TO BE AFFECTED AND THAT GOE WOULD PROBABLY IMPLEMENT SALARY INCREASES SIMULTANEOUSLY WITH, IF NOT BEFORE, PRICE RISES. IRONICALLY, HE NOTED, POOREST OF THE POOR WILL SUFFER, BUT LESS THAN "MIDDLE INCOME GROUPS" (I.E. THOSE EARNING 50-75 POUNDS A MONTH); VERY POOR ARE ALREADY DOING WITHOUT MANY OF THE THINGS ON WHICH PRICES WILL BE RAISED. OTHERS, HOWEVER, ARE TRYING DESPERATELY TO MAINTAIN PRESENT STANDARD OF LIVING AND WILL FEEL GREATLY PRESSURE OF SUBSIDY CUTS WITHOUT SALARY INCREASES.

3. OUTLOOK NOT PROMISING. SOURCE VOLUNTEERED THAT REPETITION OF JAN RIOTS COULD WELL RESULT IF PLAN IMPLEMENTED. EGYPTIAN LABOR FEDERATION, IN MEETING WHICH WILL BE HELD WITH GOE BEFORE IMPLEMENTATION, WILL RECOMMEND THAT SUBSIDY CUTS NOT TAKE PLACE. THEIR ARGUMENT WILL STRESS UNEQUAL EFFECT OF PROPOSED MEASURE ON PUBLIC SECTOR WORKERS AND VICTIMIZATION OF PRIVATE SECTOR WORKERS. FEDERATION HAS, HOWEVER, NOT YET FORMULATED DEFINITIVE PRESENTATION. ASKED IF FEDERATION LIKELY BE IN-CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 14171 251732Z

FLUENTIAL WITH GOE ON THIS QUESTION, SOURCE RECALLED THAT IT HAD BEEN "RESPONSIBLE" FOR ROLLBACK OF PRICE HIKES IN JAN (CAIRO 1898).

4. WITH REGARD TO STRIDENT GOE CAMPAIGN AGAINST "GREEDY MERCHANTS" SOURCE WAXED ELOQUENT ON MERCHANTS' RESPONSIBILITY FOR CURRENT PRICE PICTURE. IN HIS VIEW, MERCHANTS RESPONSIBLE FOR AT LEAST TWO THIRDS OF PAST YEAR'S COST OF LIVING INCREASES. HE AGREED THAT THERE NOTHING NEW ABOUT "UNFAIR" MARKUPS. MERCHANTS HAVE BEEN DOING THIS SINCE WW II. SITUATION NO BETTER UNDER NASSER FOR "CENTERS OF POWER" HAD BEEN AMONG WORST OFFENDERS IN HOLDING GOODS OFF MARKET TO INFLATE PRICES ARTIFICIALLY. GOVT SEEMED TO BE DISCOVERING PRACTICE ONLY NOW AND "IT'S ABOUT TIME". HE HOPED GOVT SERIOUS IN CLAIMING IT WILL ENFORCE THE PRICE CONTROLS. UNSCRUPULOUS MERCHANTS "WOULD BE PUBLICLY WHIPPED." HOWEVER, HE NOT OPTIMISTIC ABOUT THAT, EITHER.

5. OTHER SIDE OF COIN IS THAT EGYPT'S REAL PROBLEM IS POPULATION GROWTH WITHOUT COMMENSURATE INCREASE IN AGRICULTURAL PRODUCTION. SINCE REVOLUTION, POPULATION HAS DOUBLED BUT CULTIVATED ACREAGE HAD REMAINED THE SAME. SOME HAS EVEN BEEN

LOST TO URBAN SPRAWL. EGYPT'S ANSWER PROBABLY LIES BOTH IN LAND RECLAMATION AND COOPERATION IN EXPLOITING SUDANESE AGRICULTURAL TERRITORY. FOR THE TIME BEING, HOWEVER, GOVT SHOULD HOLD LINE ON PRICES AND CRACK DOWN EFFECTIVELY ON FOOD MERCHANTS WHO COMPOUNDING NATIONAL SHORTAGES BY HOLDING PRODUCTS OFF MARKET. HE CITED GRAPS, WHICH EVERY BODY IN CAIRO TALKING ABOUT, AS EXAMPLE. THIS PRODUCT WHICH CANNOT BE HELD BACK FOR LONG WITHOUT ROTTING AND YET GRAPS NOT AVAILABLE EVEN AT DOUBLE OFFICIAL PRICE. IN HIS VIEW THIS DIRECT CHALLENGE TO GOE AUTHORITY.

6. DABBUR SAID HE WORRIED ABOUT PUBLIC MORALE. GOVT CAMPAIGN AGAINST MERCHANTS OBVIOUSLY DESIGNED TO SHIFT MUCH OF RESPONSIBILITY FOR PRICE INCREASE ON ONE HAND AND ASSURE PUBLIC CONFIDENTIAL

CONFIDENTIAL

PAGE 04 CAIRO 14171 251732Z

IT SAFEGUARDING ITS INTERESTS ON OTHER, BUT IT IN FACT NOT SUCCEEDING IN ASSUAGING FEARS. IN PRESENT CIRCUMSTANCES OF PUBLIC DISCONTENT OVER ECONOMIC CONDITIONS, MARXISTS WILL MAKE QUIET HEADWAY. TROUBLE LIKE TO ENSUE.

7. COMMENT: MEMORY OF JAN RIOTING STILL FRESH IN MINDS OF WORKERS AND EGYPTIANS IN GENERAL. ABSENCE OF SOCIAL COHESION, WHICH RESULTS FROM WIDESPREAD BELIEF THAT CERTAIN CLASSES ARE BENEFITTING FROM GOVT'S ECONOMIC POLICIES AND GOVT'S FAILURE TO MEET HIGH EXPECTATIONS FOR PEACE AND PROSPERITY IT ITSELF CREATED SINCE OCT WAR, MAKES IT EXTREMELY DIFFICULT DESPITE STRENUOUS EFFORTS FOR GOE TO PROMOTE PUBLIC UNDERSTANDING AND PATIENCE ON THESE BREAD AND BUTTER ISSUES. EILTS

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